DOW THEORY LETTERS INC.

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February 6, 1976 Letter 655

OPENING WITH A BANG! Yale Hirsch of Stock Market Almanac fame has compiled any number of fascinating statistics about Wall Street. Perhaps his best known item has to do with January's action as a barometer of the rest of the year. History demonstrates that the month of January has, in fact, been a winner as far as pointing the way for the next eleven months.

Last year, in 1975, we saw the Standard & Poor 500 Stock Average gain 12.3% for the month of January (we use the S & P 500 for this study rather than the Dow). The January, 1975 performance proved to be an excellent harbinger of things to come. During the entire year 1975 the S & P 500 showed a net gain of 31.5%.

January, 1975's gain of 12.3% for the S & P 500 represented the largest January rise in stock market history. I have tabulated statistics for all the years in which there were large January gains. The six biggest January's (1975, 1967, 1961, 1951, 1954, 1963) were each accompanied by big gains for the year as a whole. The average gains for the entire year for those six big-January years was 25.8%. Thus we can arrive at this conclusion: If there is a big January gain, the odds are excellent that it will be a big year for the market in general.

What about 1976? The S & P 500 closed out 1975 at 90.19. By January 30, 1976 the 500 had climbed to 100.86, a rise of 11.8% to give us the second greatest January rise in history (only 1975 was greater). Since the average gain for the entire year for the previous six greatest January years was 25.8%, the odds now favor substantially higher prices for the S & P 500 (and most other Averages) before 1976 has breathed its last (regardless of possible intervening declines and corrections).

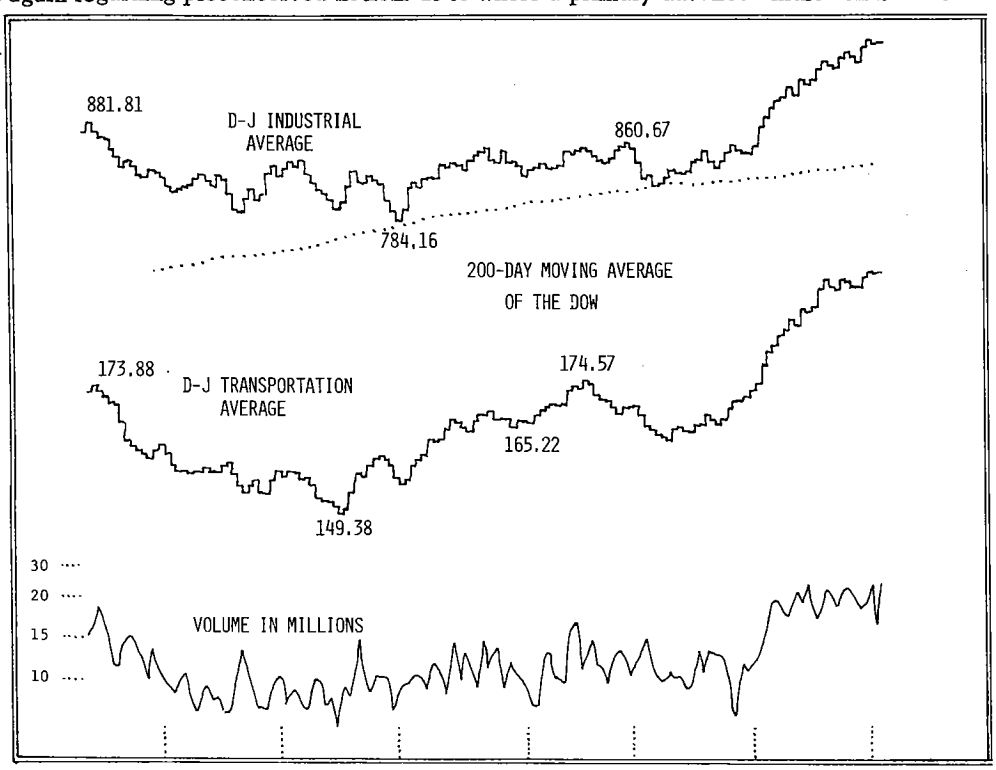
There are two kinds of reactions which we must confront in the stock market. The first kind is the one which arrives when the market is over-extended but nevertheless technically strong. For instance, the Dow has now advanced 191 points since the October, 1975 low of 784.16. This represents a 24% rise in a period of less than four months. So far, I don't see anything to indicate that this market is technically weak, but the market could need a rest (the Dow cannot sustain a rate of rise of 48 points a month for too long).

The warnings and the caution messages are now flying thick and fast. But these are certainly to be expected. They are to be expected (1) because discretion on the part of investment advisors is always the safest course, and (2) because it has been a long time since anyone on Wall Street or Main Street has seen a market like this — and they don't believe it or they don't trust it.

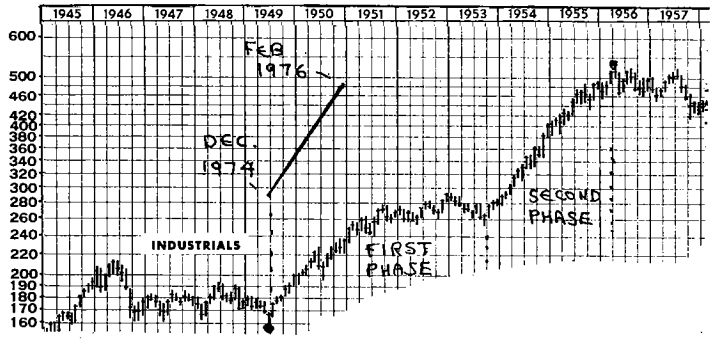
Nevertheless, I want to warn subscribers again regarding preconceived notions as to where a primary advance "must" end. The fact is that a primary movement is a law unto itself, and when a big primary advance gets underway, the market can do anything it wants — and I mean anything.

Let's take an example. During the second phase advance of the 1932-37 bull market, the Dow turned up from its February, 1933 low of 50.18 and by mid-July, 1933 it had recorded a peak of 108.67. That was a rise of 116% in five months, and this followed a Dow rise of 92% during July to September, 1932! As I said, the stock market can do anything, particularly when that anything is totally unexpected by the vast majority.

I am enclosing a section of a monthly Dow chart showing the first and second phase of the most recent, completed bull market, that of 1949-66. The chart shows that the combined first and second phases advanced the Dow a



whopping 224% (161.60 on the Dow to 521.05). Merely for comparison purposes, a rise in the Dow from the 577.60 low of December, 1974 to a second phase high comparable to the 1956 second phase peak would entail a move on the Dow to about 1870. This is not offered as a prediction, but it is included as warning against preconceived notions as to where this market is going. (Chart section courtesy of Security Research, 208 Newbury St., Boston MA 02116).



For further comparison purposes, I have shown the December, 1974 to February, 1976 Dow rise in the form of a single bar. Since it is drawn to ratio scale, the 1974-76 advance can be correctly compared with the 1949-56 advance in both duration and extent.

NEAR-TERM MARKET: So far, the 1976 market looks as good on the decline as it does on the advance. The Averages remain firmly in gear and gains are given up but grudgingly. Volume indications are bullish, and this is shown in a more sophisticated manner in the section on negative volume.

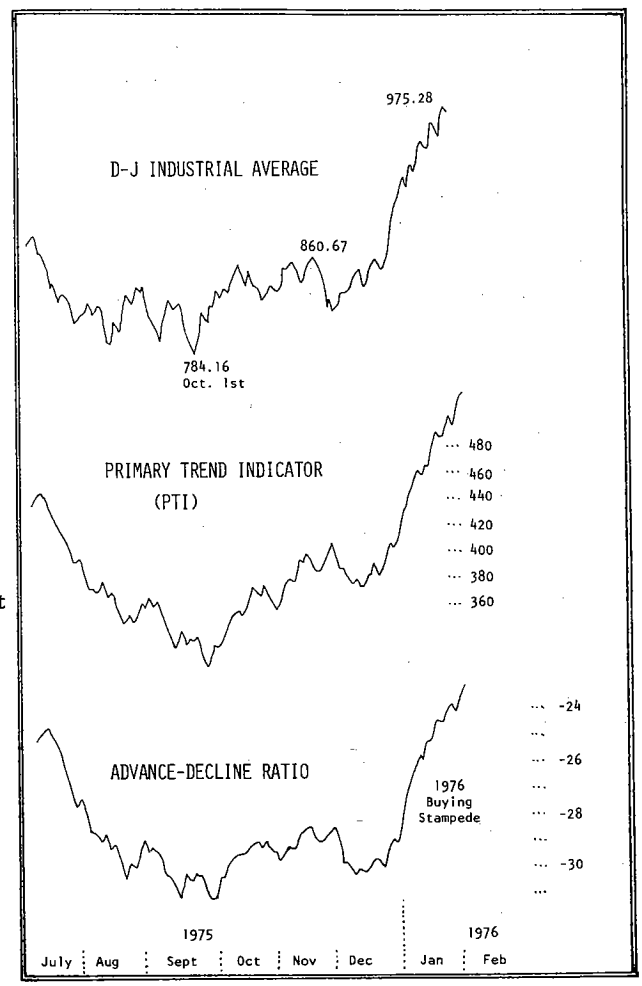
Referring to the accompanying daily chart, it is clear that the Primary Trend Index (my own amalgam of eight critical technical indicators and averages) has been in a powerful advance since December 12. The PTI, in fact, was far more resistent than almost any of my other indicators during the October- December period, and I am learning more and more to respect this indicator.

The advance-decline ratio (which tracks the direction of the majority of stocks on the NYSE) has been in a dramatic "buying stampede" phase since December 9. I define a buying stampede as any rise of 5 or more consecutive points in the A-D ratio without an intervening correction of 1 point or more. So far, the A-D ratio has advanced almost 7 consecutive points without a drop of so much as 1 point. In the absence of the minimal 1 point decline, we should realize that the buying stampede is still very much in force.

In the last two reports I recommended buying at the market without waiting for the correction which we all know must some day come. To make a long story short, we can bank on the fact that ultimately, there will be a correction. The only problem is that the buying stampede goes on, and there isn't a man alive who knows when it will stop or where. Waiting for the death of a buying stampede can be a very exasperating business if you're out of the market, particularly when stampedes so often come in clusters of two or three with sometimes sub-normal corrections in between.

* * * *

I want to comment again about the tremendous technical strength being provided by the odd lot transactions. The normal year-end and early January reinvestment period took the odd-lot purchases-to-sales ratio (10-day moving average) down to a low of 223 on January 16. That meant that odd lotters were selling 223 shares for every 100 shares purchased. Now with the Dow almost 60 points higher the reaction of the odd-lot public is back to increased selling again! As of February 2 the 10-day MA of odd-lot transactions had risen to a 1976 high of 248 (248 shares sold for every 100 purchased). Thus, the informed money buys while the public continues to bail out, a very bullish situation.



THOUGHTS, TESTS, ASSUMPTIONS: This is America's Bicentennial Year, which means that our democracy (or republic, as some prefer to term it) has lasted for 200 years. That makes us the oldest functioning democracy in the world. But against the span of world history, we haven't proved anything yet. After all, ancient Egypt lasted for 5,000 years, which was no mean feat. What was the secret of the Egyptians? A friend once suggested that among the Egyptian secrets was a method of eliminating inflation. If so, I would advocate some intensive research into Egyptian economics instead of spending another 50 billion to re-visit the moon.

Mankind has come a long way since the reign of the Pharaohs, but in some ways we have progressed very little. Personally, I have always felt that the real "unexplored space" exists inside men's minds, not out in space. A certain Rabbi who lived about 2,000 years ago was of the same opinion, and some of what he thought and said is preserved in the four books which we call the Gospels.

This Teacher pur forth one thought which I have pondered for years. In Matthew, 10:36, he said, "And a man's foes shall be they of his own household." These words are, in my opinion, symbolic. Properly understood, they can help us a great deal in our own lives — and therefore in our financial endeavors.

For in the market, as in our own lives, we live by prejudices, by preconceived notions, by distortions of the facts, by rumors and all too often by outright lies. These are the "foes" that we have to guard against and eliminate whenever possible. And these are the same enemies that can reduce our lives to misery and our market operations to shambles.

Since this is basically a financial publication, not a philosophical journal, I will stick to our problems in the stock market (I don't always promise to do that however, as older readers are only too aware). In the stock market, I classify all mistakes in one of two catagories. There are the "intelligent" mistakes, and there are the "stupid" mistakes. What is an intelligent mistake? Here's an example: You are holding a line of stocks in a bull market. You have substantial profits in your stocks, but suddenly the market turns down. Many of your technical indicators are now saying "danger," and the Averages are sagging badly. Finally, the Dow plunges below its moving average, and volume expands ominously. You make substantial sales, taking many profits and a few losses. Two days later the bottom is hit, and the trend is bullish again. What have you done? You've paid "the cost of insurance" against a possible major decline, but the decline simply did not materialize. In retrospect, you made a mistake, but it was what I would term an intelligent mistake.

Now we have another case. You're holding a big line of stocks in a bull market. The market is frothy and much churning has occurred. The uptrend has been in effect for over a year, but little correction has taken place. True, there have been many short-lived declines, "false-starts" on the downside, you call them. Then a major non-confirmation between Transports and Industrials occurs, and the Averages turn down in listless fashion. Many of your indicators suggest that the rise is travelling on thin ice. You decide to "sit it out," particularly since you want to push some of your profits into the New Year. But the market decline picks up momentum, and within a month the decline has turned into a collapse. Your portfolio and your profits have collapsed with it. Needless to say, I term this "a stupid mistake."

One of the things I try to do at all times is eliminate assumptions. I try to eliminate them wherever possible. Ironically, this is easier to do in real life than in the stock market. For example, you go to work, and you "think" your boss is angry at you (you assume he is angry because he has a funny expression on his face, and he has hardly said a word to you all morning). You act on your assumption; you avoid him, and you smile obsequiously when he passes by. But the real fact is that your boss had an attack of bursitis last night, and he is still in pain. Your assumption that he was angry with you was totally off the mark. How could you have eliminated that assumption? Simple — by having the guts to ask him if he was angry with you!

But in the stock market it isn't always that easy. For example, you get a high-volume market that appears to be "blowing off" and on the verge of collapse. You have felt for a month that prices are overrunning themselves and that the whole rise is making no sense in terms of what you "know" about the economy. The market finally turns down, and you assume that this is the big break you have been waiting for. A decline of 10 Dow points follows, and the market heads up again. The advance continues for another two months. Your assumption of impending collapse, based on your theory of a market that was already "too high," has turned out to be totally wrong.

How could you have eliminated this assumption about the market? You could not have eliminated it with a question (as you did with your boss), but you could have put your assumptions to the test. What kind of test? In the market we have a whole battery of tests (actually, every analyst has his own favorite tests for both the upside and the downside), and many of them, if applied impartially, work very well.

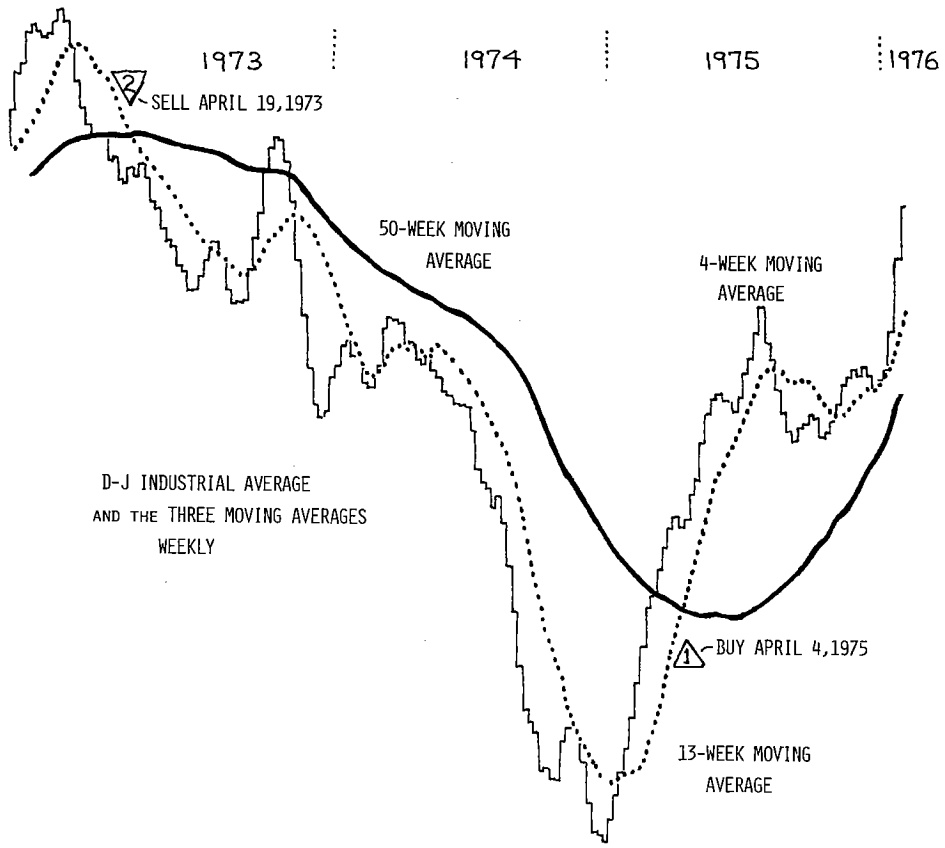
First, it is always good policy (and I am re-emphasizing this for my own benefit) to give credence to the primary trend of the market. For instance, when we are in a primary bull market (as we are now), we should always give the benefit of the doubt to the bull. Downside tests should be strict, while evidence in favor of the upside should be accepted without undue skepticism. And it should be remembered that it takes exhaustion of buying power PLUS selling pressure to knock a bull market down, whereas prices tend normally to hold or push higher during a bull market because a bull market tends to bring in more buyers than sellers (or because buying power ultimately overpowers selling pressure during the life of every bull market).

In this report, I have discussed the nearer-term outlook, but I also want to present some of the downside tests which we will undoubtedly have occasion to use as this second psychological phase of the bull market moves on. It is important to remember that we are now in the second psychological phase of the bull market, and this is the phase where the market goes up as it discounts actual improvements in the social, political and economic structure of the nation, improvement which will ultimately be reflected in rising corporate profits.

MOVING AVERAGES: The study of the three moving averages (MA's) of the Dow Industrials is one of the best as far as keeping us on the right side of the primary trend. This study was last seen in Letter 646, and I want to bring that study up to date now.

The accompanying chart shows three MA's of the Dow, a short-term or 4-week MA, an intermediate-term or 13-week MA, and a long-term or 50-week MA. The crossing of these three MA's above or below each other provides us with valuable signals.

First I want to note that signals are always taken most seriously when they are in harmony with the existing primary trend (as identified under Dow Theory). The crossing of the 4-week MA above or below the 13-week MA gives us a #2 signal or what I term a buy or sell "alert." These alerts are often useful timing devices, particularly when it comes to timing additional purchases in a bull market (or putting out shorts during a bear market).



The most important signals, however, come when the 13-week MA crosses above or below the 50-week MA. I term these #1 signals. In a bull market, an advance by the 13-week MA above the 50-week MA constitutes a strong buy signal, whereas a plunge by the 13-week MA below the 50-week MA during a bull market is usually a signal for an impending or worsening secondary reaction. The converse is true during a bear market.

It is well to remember that by construction, alert signals MUST precede the more important crossings of the 13-week MA above the 50-week MA. Note (see chart) that following the great 1974 plunge, the first buying alert came in the third week of January, 1975. This was an excellent signal since it came after the Dow Theory confirmation of a primary bull market. This signal gave a good deal of credence to our December, 1974 early buying.

The #1 or major bull signal, under this study, came on the week of April 4, when the 13-week MA pushed above the 50-week MA. That signal has not since been reversed. Note that a sell alert was given on the week ending July 31 as the 4-week MA dropped below the 13-week MA. The 4-week MA reached a low at the end of August, then started wanding its way up again. A new buy alert was given during the last week of October as the 4-week MA again pushed above the 13 week MA.

During the last two weeks of December and the first week of January, 1976, the action of the 4-week MA was extraordinary as it literally walked up the gradually rising 13-week MA. The week of January 9, 1976, is outstanding under this study because that week saw all three MA's at new highs for the primary bull market. The last time all three MA's were at the highs was during the week of July 17, 1975. The week of January 9 is also of interest in that here, for the first time, the 4-week MA rose above 900.

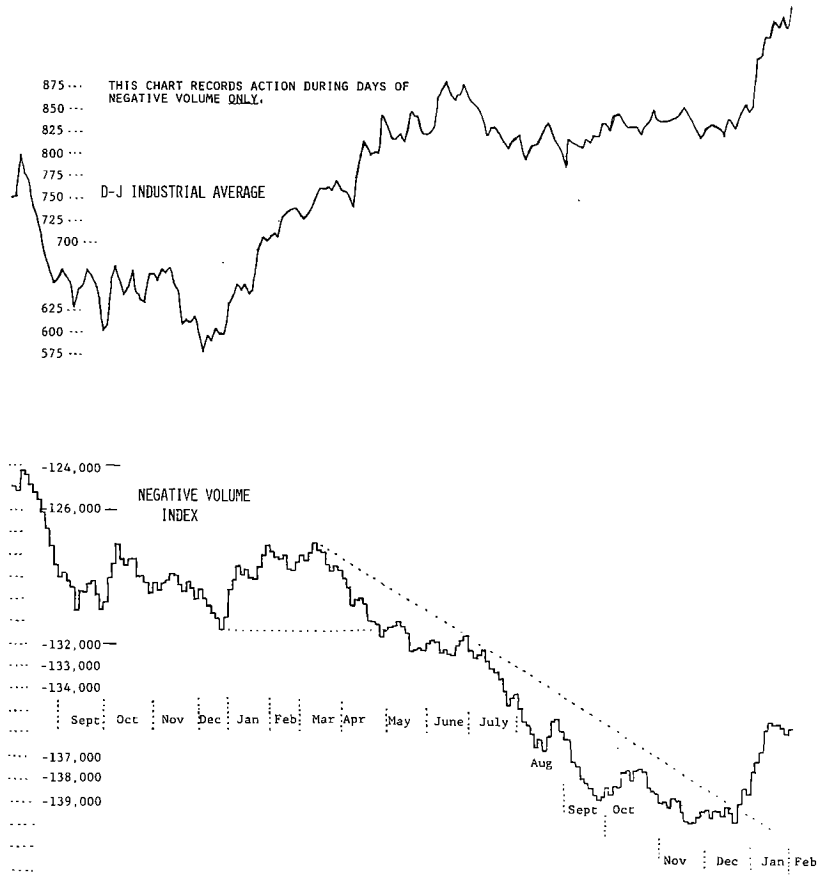
Finally, for those who keep this study on their own (and I know many of you do), I also keep a chart of the weekly point spread between the 13-week and the 50-week MA. This spread reached a bullish extreme of 120 points (!) on July 24, 1975. For 22 consecutive weeks, following July 24, the spread between the 13-week and the 50-week MA's diminished — to a low of 33 points on the week of January 2, 1976 (obviously a continuation of this narrowing trend would have produced a bearish crossing of the 13-week MA below the 50-week MA).

On January 9, 1976, for the first time since last July, the spread between the 13-week MA and the 50-week MA bullishly widened. This is a hopeful technical occurrence, particularly so because all three MA's are now moving higher. So the conclusion, as far as this study is concerned, is that the situation remains bullish. Any important changes in the positions of the MA's will be reported here (as they have over the past few years).

NEGATIVE VOLUME: Technical indicators, as I've noted many times over the years, have a habit of working well for extended periods of time, then going completely "haywire." Why this should be no one really knows, but probably the best explanation is that the better the indicator, the wider the following it attracts. As the followers develop into a crowd, the predictive qualities of the indicator become self-defeating (since obviously, not too many people can be right about the stock market, and this includes the fans and boosters of any given indicator).

All of which is why I have often said that the art of technical analysis entails knowing (or intuiting) which indicators to throw out during any particular period. This concept should not be confused with arguments about the usefulness of basic market measurements. Among these I include the various stock averages and the advance-decline ratio. The Averages and the A-D ratio will always give us a fairly good idea of where the market is and what it has been doing. As far as the predictive value of the Averages and the A-D ratio is concerned, they have been used in combination by many analysts, often with great success, but at times with dramatic failure.

One variation or refinement of the advance-decline concept is the negative volume index, of which I have written a good deal in recent months. This is the plurality of advances over declines (or vice versa) on days when NYSE volume is below the previous day. The original rationale for the NV index, as put forth by Paul Dysart, is that informed money prefers to operate during quiet days, while the public prefers "the action" or the big volume days.



Since volume of activity is always relative, Dysart conceived the idea of the negative volume index, based on advance-decline pluralities on days when volume drops below preceding day volume. This makes sense because a dull day in 1950 was about 1 million shares whereas a dull day today is about 15 million shares (thus, the NV concept is based on lower volume than the preceding day, not lower volume than last month or last year).

The recent record of NV (see chart) is most impressive. From December to March, 1975, the NV index traced out a bullish series of upward zig-zags. In March, when the NV bettered the early October peak the situation appeared bullish indeed. Then inexplicably, NV turned down, and in late April NV actually broke to a new low below even the September and December lows.

This breakdown in NV was most disturbing to me. It meant that stock had been bought or "put up" on big volume, but the gains of December to March had not been supported by informed money. The decline in NV suggested that.

The extraordinary NV decline carried from April, 1975 to the end of the year, but by July the message of the NV index was becoming more visible in the market. From July to December the market fell into a frustrating and discouraging trading range with many stocks giving up one-half to two-thirds of their 1975 gains.

During November and December the NV index moved sideways in a very tight range. But what was interesting was that the sideways movement was carrying the NV index towards a declining trendline which had been in existence for nine months or ever since the March peak. Although I had never used trendline analysis for the NV, I thought this action was significant. On December 24 the NV index pushed above its trendline, and this proved to be the signal for a change in the entire complexion of the market.

With the reversal in NV trend, the market "came alive" and upside volume exploded. On January 2 the NV gave a most bullish signal by bettering the preceding October peak. The December-January action of NV, as shown on the chart, is the most powerful of any seen during this bull market. (Note particularly recent resistence as the NV corrects mildly to the downside).

It has been over twenty years since we have seen a great and extended rise in NV, the last being during the tremendous price and breadth advances of the 1950's. It remains to be seen how strong and how extended the current NV action will be. But I will repeat that the really great bull markets, the ones that are the most powerful and broadest, are the primary bull markets which have a rising NV base to support them.

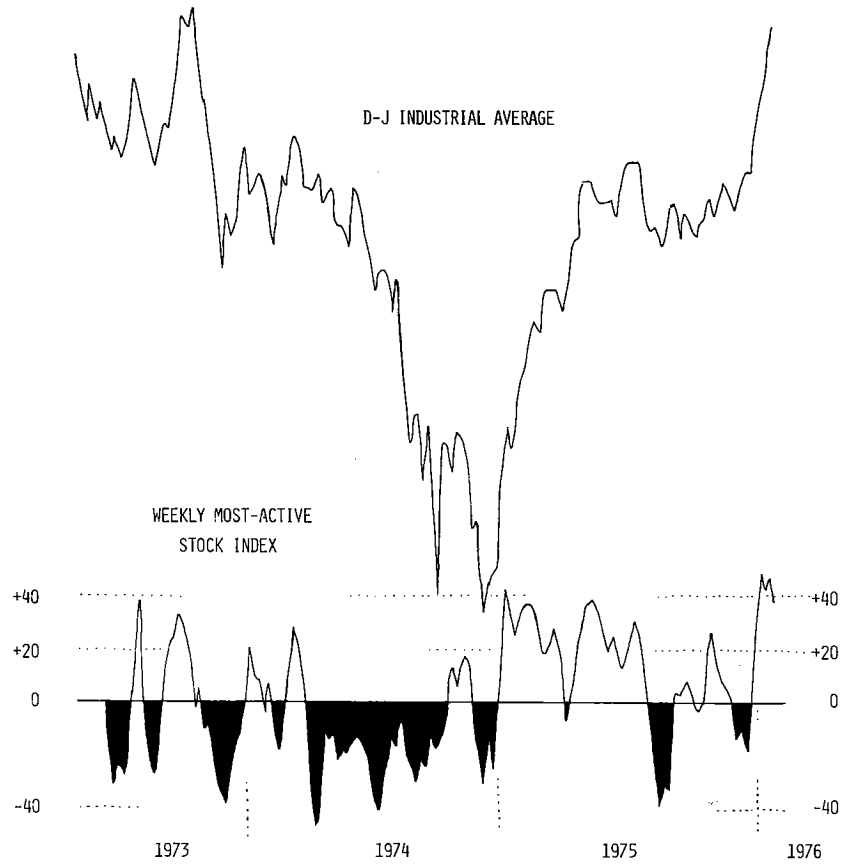
The most bullish action in the stock market is that which is seen when stocks rise on good volume and the hold their gains when volume declines. This kind of action always produces a rising profile on the NV index. So far, the rise since December, 1975 has been strongly supported by NV. Let's hope the NV index continues its flawless performance as this bull market moves on.

WEEKLY MOST-ACTIVES: I have included my chart (page 6) of the weekly most-active stock pluralities (i.e., pluralities of the most-actives that advanced or declined during the week). This indicator is presented in the form of a three-week moving average. Since the weekly figures are based on the 20 most active stocks for each week, the highest possible score would be a plus 20 (meaning all 20 most-actives were up during a given week). By the same token, the highest possible score for the three-week MA would be a plus 60.

Actually, the 1976 upward "send-off" for this market saw the most-active indicator hold above plus 40 for three consecutive weeks, a phenomenon unmatched in my records going back for many years. It was a veritable upward explosion.

The chart is also interesting in that it shows the tremendous downward pressure brought on by selling in the most-actives during the

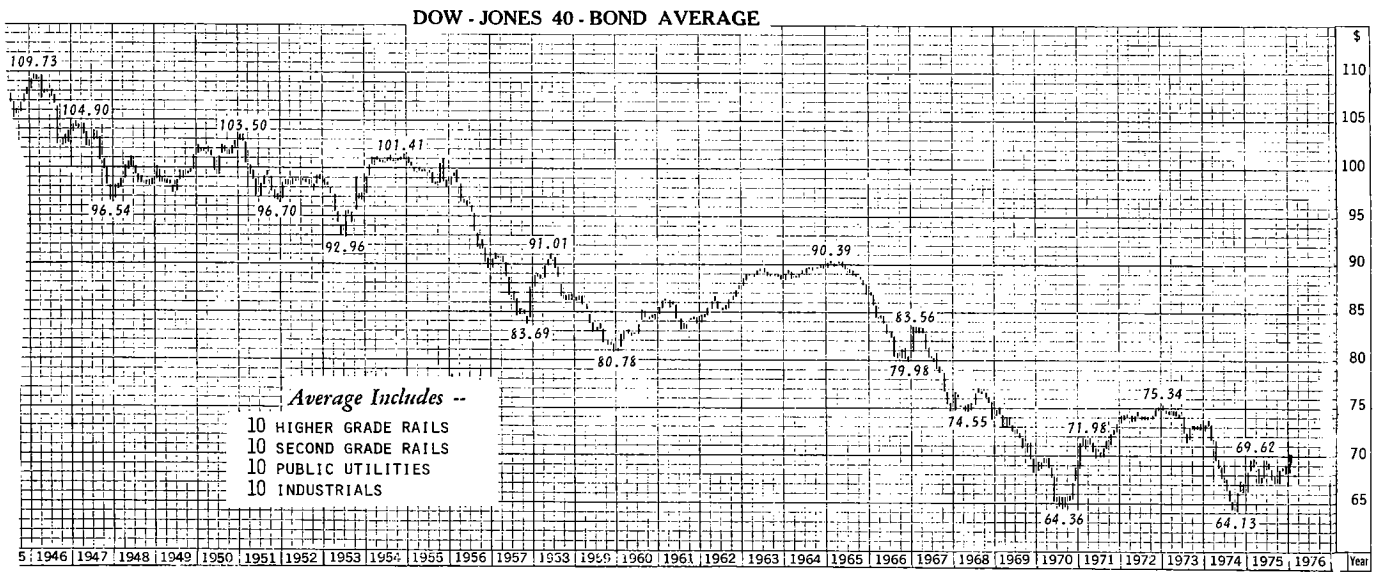
bear market years of 1973 and 1974. Then note the big upside signal given by the most-actives during 1975, as the bull market got underway. The January 1976 action in the most-actives surpassed even the most powerful action of 1975. It would seem that the 1976 upward rush in the most-actives portends strong action for the market, since the most-actives tend to lead the rest of the market during both advancing and declining phases.



BONDS: I have been emphasizing the importance of the advancing bonds market in terms of the bull market in stocks. On January 28 the D-J 40-Bond Average pushed above the 71.00 level for the first time since early 1974. The broad 40-Bond Average has now bettered two important preceding tops, and it has formed a pronounced upward zig-zag on the chart.

This powerful rising formation, taken within the context of the extraordinary double bottoms of 1970 and 1974, suggests to me that the bond market is in a bull trend which could turn out to be surprising both in strength and tenacity.

Studying the chart, you will note the critical importance of the early 1973 top in the 40-Bond Average, a top that formed at the lower 75 level. That means



that the 40-Bond Average has four points to go to reach the major peak formed in early 1973.

Note also the critical importance of the early 1973 top in the 40-Bond Average, a top that was completed at the 75.34 level. In thirty years no advance in the 40-Bond Average has managed to better a major preceding peak. If the 40-Bonds can advance another four points (to better the 75.34 peak) they will have "done the impossible" and we will have a primary bull market in bonds (or a confirmed bond bull market).

Of course, the corrolary to that would be that a bull market in bonds would mean an accompanying collapse in interest rates. A major or primary decline in interest rates together with a primary bull market in stocks is something that has not occurred since the 1942-46 bull market. To put it another way, it would be a phenomenon beyond the experience of 90% of the brokers on Wall Street.

What could cause such a cave-in in interest rates? I don't have the exact answer, but it could be steady (rather than booming) business, rising corporate liquidity, continuing conservatism on the part of corporations regarding capital spending, rising tax takes by Government and a decrease in needs for Government financing, a persistent low level of construction in the nation.

At any rate, the current trend of the bond market IS bullishly up, and it has been since late-1974. What the 40-Bond Average does from here, however, could contain the secret of the stock market and the economy for many months and even for years to come. I make that statement because at this stage of the super-cycle nothing would be more bullish for the stock market than a long-term of primary bull market in bonds.

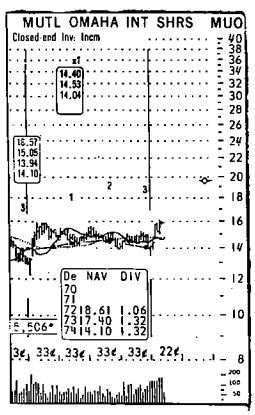
STOCKS & BONDS: The consumer is still not bullish, either about the stock market or about the economy. True, the average consumer is now lining up at the restaurants and at the movies, but he is still not an avid car buyer nor is he a home buyer. In other words, as things stand now Americans are buying hamburgers and blue jeans galore, but they are not really buying the big ticket items.

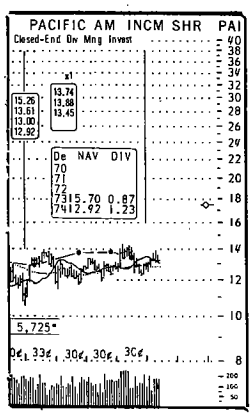
At the same time, American business is not going heavily into capital spending. And as every economist knows, the backbone of a boom is always capital spending. All of which adds up to the fact that we are not yet going into a business boom, and this means that there is no real pressure for money in the capital markets. Personally, I am of the opinion (as are many others) that the last thing this country needs at this time is a business boom, a boom that would run interest rates through the roof and probably bring down the economy and the stock market. True, we may have a boom in 1977 or 1978, but as of now, it just isn't there.

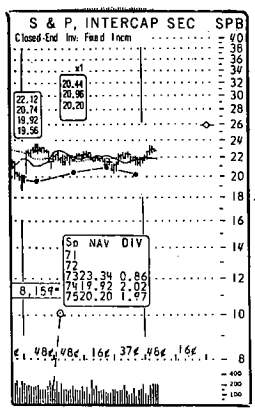
My own guess is that currently we are in a period in which the economy is going to be "all right" but of less than boom proportions (and this could last for quite awhile, perhaps a year or so). This kind of action is very fortuitous for the stock market in that it will allow many corporations to build up liquidity, it will allow for a sharp rebound from the 1974-75 profits collapse, and it will keep the money markets in a generally "cool" state.

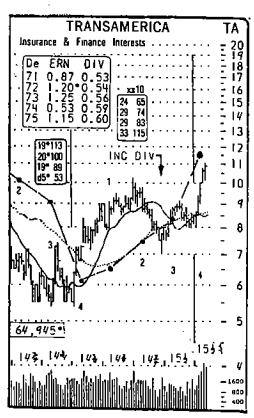
Because I feel that the deflationary forces discussed above will result in an even lower level of interest rates in coming months, I continue to recommend the money markets as a valid place to keep a certain portion of one's assets. One of the money market areas I have particularly recommended is the closed-end bond funds, most of which are selling at around 5% to 10% below net assets.

These funds are, in the main, traded like any other stock on the NYSE, and statistics on them are readily available from your broker. The following closed-end funds are listed with their February 4 price and their approximate yield, not including any extras which may be declared. I like all of these: Standard & Poor's Intercapital Securities selling at 23 and yielding 8.6%, Transamerica Income selling at 23 3/8 to yield 8.5%, Mutual of Omaha at 15 3/4 to yield 8.3%, and Pacific American selling at 13 3/8 to yield 9.2%. (Charts courtesy of QUOTE, P.O. Box 217, Wichita, KA 67201).









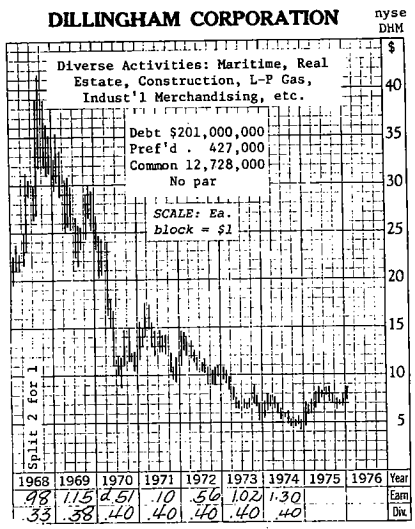
STOCKS: Readers may have been surprised at some of the rocketing action in the low-priced stocks which were recommended for purchase in the past two reports. My reasons for recommending these shares were explained in both reports, but I want to discuss one further factor in the low-priced stock syndrome at this time.

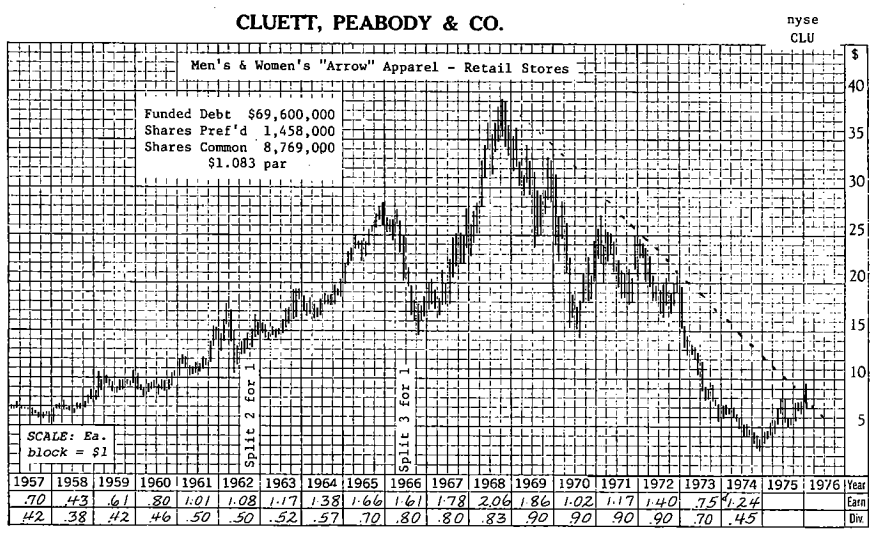
In mid-December, 1968, near the speculative market highs, only 5.4% of all the stocks on the NYSE sold in the "below $10 area." At the same time, 66% of all the stocks sold above the $25 level. In other words, only one in twenty stocks sold below $10 at the speculative highs.

Now look at these statistics. At the December, 1974 crash lows, 64% or almost two-thirds of all the stocks on the NYSE sold below the $10 level! At the same time only 9% of NYSE stocks sold above the $25 level.

Where are we now? Currently, about 45% or almost half (!) of all NYSE stocks still sell below $10, while only 20% of NYSE sell above the $25 level.

My conclusion is this: this is a primary bull market, and almost all bull markets end up with a big, speculative fling. If this bull market runs true to form, we're going to have an eventual frothy third phase advance. When that happens, I would expect the "under $10" classification to get mighty small. Maybe it won't get down to the 5.5% level of 1968, but if it gets anywhere near it, there won't be many stocks left on the NYSE under $10. And a good many of the low-priced stocks I have recommended in the past few Letters are going to have doubled and tripled from current price levels (regardless of any and all corrections between here and the final top).

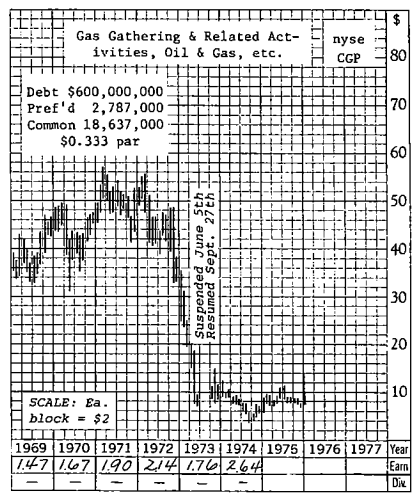

DILLINGHAM CORPORATION
nyse
DHM
Diverse Activities: Maritime, Real Estate, Construction, L-P Gas, Indust'l Merchandising, etc.
Debt $201,000,000
Pref'd . 427,000
Common 12,728,000
No par
SCALE: Ea. block = $1
Split 2 for 1
1968 1969 1970 1971 1972 1973 1974 1975 1976 Year
.98 1.15 2.51 .10 .56 1.02 1.30 Earn
.33 .38 .40 .40 .40 .40 .40 Div.



As to individual stocks, I want to review groups, and I have found that very excellent relative strength ratings for groups are provided by friend Ian McAvity in his Deliberations reports (P.O. Box 182, Adelaide St. Sta., Ontario, Canada M5C 2J1). McAvity shows Air Transport as the number 1 relative strength group (it has been #1 for five consecutive weeks), Auto Equipment is second, Packing third, Building Material fourth, and Textiles fifth.

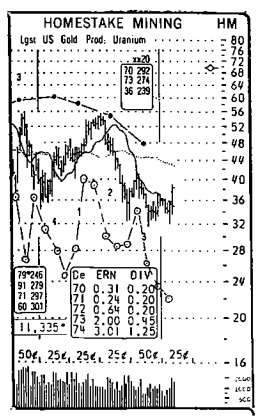
In the last two Letters I listed over 40 low-priced stocks for purchase, and I have only one addition to the list which I am including in the report. This is the giant Dillingham Corp, builders, real estate holders, merchandisers and one of the major corporate entities in Hawaii (although they operate throughout the US as well). DHM, down from its 1968 high of 41, is now selling at 8 3/4. DHM's earnings have now turned up, and the dividend has just been increased to 12 1/2¢ quarterly from 10¢.

COASTAL STATES GAS CORP.


Gas Gathering & Related Activities, Oil & Gas, etc.
nyse
CGP
Debt $600,000,000
Pref'd 2,787,000
Common 18,637,000
$0.333 par
Suspended June 5th
Resumed Sept. 27th
SCALE: Ea. block = $2
1969 1970 1971 1972 1973 1974 1975 1976 1977 Year
1.47 1.67 1.90 2.14 1.76 2.64 Earn
— — — — — — Div.

I am also including long-term (monthly charts) of two other stocks, previously recommended, which are still well worth buying. These are Coastal States Gas and Cluett. Note the long, bull market base in all three stocks and the recent upside breakouts which I have inked in. DHM and CGP have bases that extend for three years, and CLU has been basing for two years and has just reversed a seven-year declining trendline. (Note: all the stocks mentioned in the last two Letters are still recommended.)

GOLD: At last week's price of 130, gold registered a bullish signal on my point & figure chart, but it would take a price of 150 to reverse even the intermediate-term bearish trendline in gold bullion. After a sluggish rise in gold momentum from the September, 1974 low, gold momentum has now turned down again, and it does not appear to me that gold is going to show any immediate momentum on the upside. The individual gold stocks are acting the same way, popping up, but showing little in the way of follow-through. As I suggested in previous Letters, Homestake is becoming more of a natural resource play than a gold stock, and HM is indeed performing better than the S. African shares.



I include Quote's chart of Homestake, and this is the only gold stock I would recommend holding at this time. HM appears to be attempting a real base in this area, and a move above 42 would mean that HM had turned bullish. I'm going to say this here and now- I am not convinced that HM is going to move out on the upside during 1976, but I would be very surprised if HM breaks below 32 again. On that basis, HM remains, in my opinion, a valid hedge against inflation, against a deflationary collapse, and against possible mounting pressure in S. Africa (HM is the largest gold mining operation in the Americas).

NEXT MAILING: February 18